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Pensions & Investment Age

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The road ahead:

The Image Bank

INVESTING IN '87: The three hottest investment areas of 1986 — portfolio insurance, indexing and international — will still simmer in 1987, and other derivative strategies will grow. A new consciousness of pension fund volatility, however, could lead executives to take a more conservative investment stance — page 3.

THE ECONOMY: Leading economists are expecting a low key year in 1987, predicting low inflation, low interest rates, modest improvements in the federal deficit and trade deficit and a 25% to 33% chance of recession. A story and table detail their predictions — page 3.

CORPORATE FINANCE: While few investment bankers expect the new year to match the old, they're not preparing to slow down — page 4.

CASH MANAGEMENT: 1987 is likely to be one of great change for corporate cash managers, as they face possible Fed restrictions, new instruments, changing bank relationships and GM's push into electronic funds and data

be at page 8.

New network shuns brokers, cuts costs

By Chuck Paustian and Brian Lehrer

Seven institutional investors participated in the initial testing of a computerized trading network that bypasses brokerage houses and allows investors to reduce their commission costs to 1 cent per share or less.

The Deere & Co. pension fund, Moline, Ill.; Chase Investors Management Corp., New York; American National Bank & Trust Co. of Chicago; and The Northern Trust Co., Chicago, were among the traders in the initial electronic crossing Dec. 12, *Pensions & Investment Age* has learned.

A public pension fund and two other money managers were the other players.

The crossing system, developed by Instinet Corp., New York, electronically matches buyers and sellers of stocks through a central computer. Transactions occur after the market has closed at the price of the day's last sale, thus eliminating any market impact.

"Pre-crossing" computer matches, taking a matter of minutes, are used to line up both sides of the trade. The actual crossing takes less than one second.

Another 32 institutional investors have indicated their interest in the electronic trading network, said Edward C. Story, a partner in Plexus Group, Santa Monica, Calif., which is marketing the network.

Batterymarch Financial Management, Boston, and Aronson & Fogler, Philadelphia, have signed up to participate. The Teacher Retirement System of Texas, Austin, and the New York State Teachers Retirement System, Albany, are considering joining.

"Eventually, if this thing takes off the way we expect it to, it will make a major dent in the function in life of the brokerage houses," said Mr. Story.

The concept behind electronic crossing has been discussed by pension fund executives, consultants and money managers for several years.

BARRA, a consulting firm in Berkeley, Calif., and Jefferies & Co. Inc., Los Angeles, also have introduced an electronic matching network.

Instinet's network is designed to accommodate investors executing "informationless trades" such as for index funds. Such trades result from computer analysis or investment style.

Electronic crossing is similar to program trading and block trading, except share prices and commissions are not negotiated and the names of the stocks are known.

Mr. Story said the seven institutional participants were divided into passive and semi-passive investors. Passive investors — mainly index fund managers and those going through a major liquidation of holdings — "are operating on the least amount of information," he said.

The semi-passive group is composed of highly quantitative managers and internally managed corporate and public pension funds.

"Eventually, there will be two other groups involved," one for active managers and one for market functionaries, such as specialists and brokerage firms, Mr. Story said.

One of the attractions of the electronic matching system is the lower transaction costs possible

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2 corporate plans shuffle $2 billion

By Barry B. Burr

Executives at American Information Technologies Corp. and Standard Oil Co. are shifting a total of about $2 billion in a restructuring of their pension funds' investments.

The $9.28 billion Ameritech fund in Chicago is pulling $1 billion from domestic equity managers to begin its first major in-house management and $500 million from those managers to place in its first bond index fund.

That's part of a strategic move to reduce its equity allocation to give fixed income a slight edge over equity in asset allocation.

Meanwhile, the $1.022 billion Standard Oil fund in Cleveland is moving into indexing for the first time, dismantling a $300 million bond portfolio and selling guaranteed investment contracts before their maturity in the "secondary market."

According to Jeffrey S. Molitor, Standard's manager-pension investments, Frank Russell Co., Tacoma, Wash., its regular consultant, is helping devise a long-term investment strategy.

Glenn A. Dever, supervisor-investment analysis at Ameritech, said fund officials so far have taken $500 million in-house as part of a planned $1 billion Standard & Poor's 500 stock index portfolio. He expects the other $500 million for the stock index fund to be turned over to Ameritech from the managers "very soon."

Mr. Dever said Ameritech will retain its 13 domestic equity managers, albeit with reduced assignments.

He said the fund is still withdrawing the money from the equity managers for the in-house management.

Once the other $500 million is turned over for the internal stock index fund, Ameritech will manage internally 11% of its total assets and 23% of its equity assets.

"It's conceivable" Ameritech could take more money in-house and run it actively, not just passively, Mr. Dever said.

"I don't think we'll do it in 1987," he said. "But maybe in 1988, 1989 we might."

National Investment Services of America Inc., Milwaukee, is overseeing Ameritech's bond index fund temporarily. Mr. Dever said Ameritech is planning to transfer the bond index assets to Lincoln Capital Management Co., Chicago.

Lincoln already runs equities for the fund. NISA oversees Ameritech's dedicated bond portfolio, which has grown to $3

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Funds shelter surplus

By Richard Gillespie and Brad Rudin

A new form of pension "parachutes" has been adopted by Morton Thiokol Inc., Chicago, while the more common structure has survived an initial court challenge in a takeover bid involving Joy Manufacturing Co., Pittsburgh.

Directors at Morton Thiokol, fearing the company's $310 million in surplus pension assets might attract a hostile takeover bid, adopted a plan that would prevent the company from terminating its $558 million pension fund for the purpose of withdrawing any surplus for a five-year period in the event of a hostile takeover.

This differs from more common pension parachute amendments that stipulate at least part of the surplus assets would enhance participants' benefits.

If an individual or group acquires more than 20% of the company's stock, the Morton Thiokol board would have up

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Raytheon getting out of real estate

By John Covaleski

LEXINGTON, Mass. — The $1.84 billion Raytheon Co. pension fund is liquidating its $60 million real estate portfolio and terminating its real estate investment managers.

Raytheon had about 4% of its $1.5 billion in defined benefit assets invested in real estate as of Sept. 30. About $40 million already has been returned to the fund. Some of the money has been allocated to equities; the rest is parked temporarily in cash reserves.

W. Bruce Livingston, manager-employee benefits for Raytheon, said he wanted out of real estate because the fund's allocation had been too small to be considered diversification.

Mr. Livingston said the fund reached — but never exceeded — the 4% level in real estate in 1980, despite plans to be to up to 5% by now and 10% later.

Asked why the fund did not increase its real estate holdings, Mr. Livingston replied, "The real estate industry has had its difficulties." He added the fund might invest in real estate again in the future.

He said the board of trustees decided to pull out of real estate because of poor returns, severe problems in the office market and concerns about liquidity.

In September, when Raytheon officials decided to pull out of real estate, office vacancy rates nationwide were averaging 16% and, in some cities, 30% or more.

"At the moment, our thinking is that real estate isn't a fit in our strategy," Mr. Livingston said.

The pension fund had assets in four open-end funds and one closed-end fund, all primarily investing in non-leveraged office, research-development and retail projects.

The open-end funds are run by Aetna Realty Advisors, Hartford, Conn.; the Real Estate Group of the Bank of Boston, Boston; J.P. Morgan Investment Management, New York. and John Hancock Life Insurance Co., Boston. Aetna also manages the Closed-End Real Estate Separate Account in which Raytheon invested.

Hancock and Morgan have returned the money to the pension fund.

An Aetna spokesman declined to speculate when assets would be returned from CERESA beyond saying it may take time to find a buyer. (Closed-end funds are more difficult to withdraw from than open-end funds because another buyer must be found for the withdrawing investor's portion.)

Bank of Boston officials have begun a year-long process of withdrawing Raytheon's money from the bank's fund.

Executives of other corporate pension funds contacted said their counterparts at Raytheon made an unwise move.

"In my opinion, this is not the right thing to do, not wise at all," said Alwyn E. Wolfarth, manager of the more than $3 billion Monsanto Co. fund in St. Louis.

Edward T. Tokar Jr., vice president-investments for the more than $4 billion Allied-Signal Inc. fund in Morristown, N.J., conceded real estate is not doing well now, but it will improve should inflation increase.

He said fund executives and real estate managers generally agree investors should

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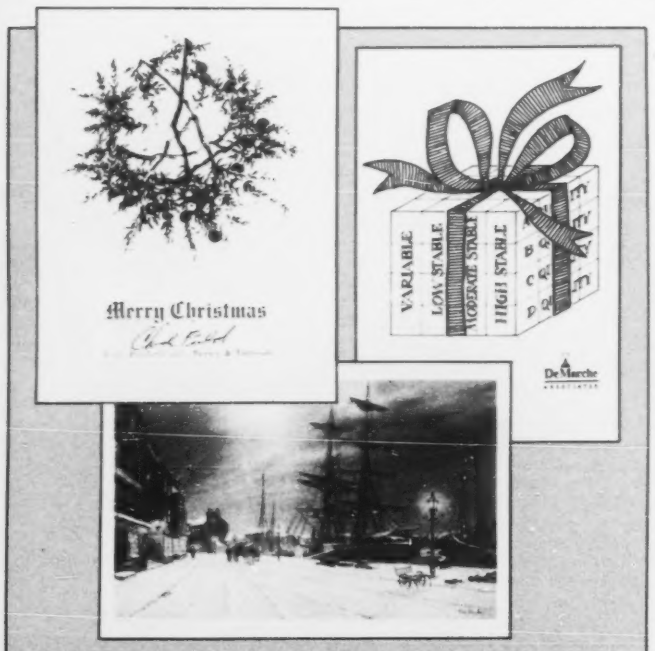

Christmas cards may reveal more than firms realize

By Chuck Paustian

A picture may be worth a thousand words, but in the investment business, a Christmas card tells a lot about the firm sending the holiday greeting.

"The cards these firms select, and their behavior in general, is a function of their attitudes, beliefs and previous relationships," said Napoleon C. Pozulp II, clinical psychologist with Associated Certified Psychologists, Chicago.

The use of color, for example, usually represents emotions, with different colors projecting different emotions. The colors used, and how they are used, could reveal how that institution deals with emotions, he said.

Mr. Pozulp was asked to analyze a random sampling of the Christmas cards received by the editorial staff of *Pensions & Investment Age*. Prior to the interview, Mr. Pozulp had no knowledge of any of the money management or consulting firms or the nature of their business.

Here are thumbnail sketches of the psychologist's analysis, preceded by descriptions of the cards:

• **Renaissance Investment Management Inc.**, Cincinnati, sent a white card with a black sketch of a large house being decorated for the holidays. The cover also includes small patches of red.

"It's interesting that this is essentially a colorless card, except for the red," said Mr. Pozulp. "It may point to the way they deal with emotions.

"There's certainly room for feelings and emotions, but they need to be put into compartments," he said, adding the card projects an acceptance of emotion, as long as it is kept in perspective so as not to interfere with the work at hand.

"I can't help but feel that someone wanted to project the impression that this is a firm that deals with tangibles."

• **D.L. Eager Associates**, Louisville, Ky., sent a card with a 1-inch green border around the cover. In the middle of the cover,

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1 fund diversifies, 1 hedges

By Steve Hemmerick

LOS ANGELES — The Los Angeles County Employees' Retirement Association is on the verge of pumping $900 million into international equities, evenly split between and passive and active management, while the Los Angeles Fire & Police Pension System expects to hire three managers to hedge its $1.35 billion stock portfolio with options.

The county fund will give Chase Investors Management Corp., New York, $450 million for passive international management if an agreement on fees can be reached. That would be more than five times the $80 million Chase has under passive international management now.

County trustees also decided, subject to fee negotiation, to give an estimated $90 million each to five active international equity managers: Nomura Capital Management Inc., New York; Brown Brothers Harriman & Co., New York; Capital Guardian Trust Co., Los Angeles; Morgan Grenfell Investment Services Ltd., New York; and Warburg Investment Management International Ltd., New York.

The option writing firms to be hired by the fire and police fund are MCQ Inc., Torrance, Calif.; Balch, Hardy & Scheinman Inc., New York; and Oppenheimer Capital Corp., New York. All will write covered call options on individual stocks and stock indexes.

At the county fund, it appears Chase won out over State Street Bank & Trust Co., Boston, which has $2.5 billion under passive international management. They were the only two firms in the running.

Most of the county's trustees expressed disappointment in State Street's presentation, saying they didn't believe it was targeted for them and State Street didn't present its investment approach well.

In addition, trustees said State Street management fees were significantly higher than those of Chase, although they noted State Street might be open to negotiation.

Trustees at first considered splitting the county's passive allocation between State Street and Chase because of concern about the relatively small amount of in-

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2 pension execs retire, 2 others join sell side

Two leading Southwest pension executives will end long careers with their respective firms in January through retirement.

Meanwhile, two other pension fund executives have made the switch to money management, working for insurance companies.

J.L. Neill, director-trusteed benefit funds at Manville Corp., Denver, will retire Jan. 1 after 36 years with the company. Martin Rodman, assistant controller-insurance at the Army & Air Force Exchange Service, Dallas, is scheduled to retire Jan. 23 after 30 years with AAFES.

Moving to the sell side are Robert Angelica, director of pension investments at the $27 billion American Telephone & Telegraph Co. master pension trust, and Gyanendra K. Joshi, who left Warner-Lambert Co., Morris Plains, N.J., as head of its $1 billion in employee benefit assets.

Mr. Angelica has become managing director of the pension asset management group at Prudential Affiliated Investors, Newark, N.J. Mr. Joshi will become managing director for equities of Connecticut Mutual Life Insurance Co.'s new Pratt, Goodwin and Phelps Inc. investment management subsidiary, Hartford.

Neither Mr. Neill nor Mr. Rodman has definite plans following retirement, although Mr. Neill said he probably will take a marketing position with an investment management firm to be formed in Denver in 1987.

Mr. Rodman said he is pondering possibilities and will continue teaching a class at Southern Methodist University, offered in conjunction with the International Foundation of Employee Benefit Plans and leading to the designation of certified employee benefit specialist.

J.L. Neill, director of trusteed benefits, is retiring from Manville Corp. after 36 years with the Denver-based company.

Looking back, Mr. Neill said the Manville fund had only one outside manager in 1967 when he started working with the fund. "Then, in 1973-'74 we got caught with the 'nifty 50' stocks and experienced severe losses in that

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The road ahead

THE ROAD FINANCIAL EXECUTIVES and professionals will travel in 1987 seems littered with many of the same opportunities — and a few of the problems — they first encountered in 1986.

In corporate finance, for example, the surge in mergers, acquisitions and corporate restructurings will continue, although a lull is expected at the beginning of the year.

In cash management, corporate executives will pay close attention to how General Motors Corp. implements its electronic funds and data transfer program, knowing they soon could be following GM's lead.

Pension executives will pump even more money into portfolio insurance, index funds and international investments in 1987, while more consciously matching liabilities with assets.

The 100th Congress, meanwhile, will be grappling with issues of keen interest to many financial leaders, including post-retirement health care, terminations and reversions and the Pension Benefit Guaranty Corp.'s deteriorating finances.

These and other important and thorny issues are explored in this Review & Outlook section, a team effort of the editorial staff of *Pensions & Investment Age*. This is just a sneak preview; the editors and reporters will provide up-to-the-minute coverage of these and other subjects as they develop.

1986's hot investments will still simmer in 1987

Portfolio insurance, index funds and international stocks and bonds — the hottest investments of 1986 — will continue to attract pension dollars next year, but not at the same feverish pace.

Use of other derivative strategies also will grow, while pension fund interest in real estate and venture capital will hold steady in 1987, interviews with corporate pension executives and investment professionals show.

Concern about pension fund volatility showing up on corporate bottom lines is making pension fund executives more conscious of matching fund liabilities with assets. Some predict this might cause pension funds to adopt a more conservative stance in their investment strategies, possibly at the risk of increasing long-term costs to the corporation.

"There seems to be a growing trend toward volatility management and a concern with the down side," said Don Gingery, director-investment management research, William M. Mercer-Meidinger Inc., Louisville, Ky.

Investment experts are not predicting any radical changes in investment strategies next year, but a period of reassessment now that pension funds have scored huge gains from recent bull markets.

However, 1986 might have been a watershed year in the development of passive investment vehicles, particularly in dynamic hedging and indexed funds.

Dynamic hedging grew to an astonishing $45 billion in assets covered by the defensive strategy from roughly $6 billion at the year's beginning.

Investments in various types of index funds also soared, to perhaps as much as $150 billion from nearly $80 billion at the end of 1985. The jump is still huge even after market appreciation is taken into consideration.

While unlikely to repeat this year's 650% increase in assets under management, portfolio insurance's popularity will continue to rise, predicted Eugene Brody, director of options management at Oppenheimer Capital Corp., New York.

"I think it will get a larger and larger share of the pension market," he said.

How much the share grows might depend on stock market performance. If the market rises or falls dramatically, interest in dynamic hedging likely will increase, said Gerald W. Bialka, assistant treasurer of Mead Corp., Dayton, Ohio. In a roaring bull market, pension officers will want to protect gains; in a bearish one, they will want to avoid the bottom.

A highly volatile market won't bode well for portfolio insurance, Mr. Bialka said. "To the extent that the market just trades within a range, the cost (of portfolio insurance) will look too high."

In a waffling market, dynamically hedged funds that sold futures when portfolio values declined will have to buy them back when values rise again, thus increasing costs.

Irene Leary, manager-employee benefit fund investments at Texas Instruments Inc., Dallas, said interest in dynamic hedging also might dissipate in a bull market that is based on corporate earnings growth and, therefore, perceived as a stronger rally than

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Economists see modest prospects for new year

NEW YORK — Leading Wall Street economists look for only modest growth in the economy next year, and most say there is a 25% to 33% chance of a recession.

Overall, they expect continued low inflation and low interest rates and modest improvements in the federal deficit and the trade deficit.

Economists from 12 companies were interviewed; their prognosis for the economy follows.

Growth and recession

The economists surveyed expect slower gross national product growth in the first half of 1987 — a median of 1.8% — than in the second half — 3%.

Among the dissenters are Ken Safian, president of Safian Investment Research, and Deborah Johnson, senior economist at Prudential-Bache Securities.

Mr. Safian anticipates no growth in the first half, slipping to a decline of 2% in the second: "We're in a transition period in the economy, and I think recessions usually take place in transition periods."

He pointed to such potentially recessionary events as tax reform, the new Democratic-controlled Senate combined with President Reagan's difficulties, and attempts to get the trade deficit under control, which will mean reducing imports.

Ms. Johnson expects the GNP to decline at an annual rate of 2% in the first quarter and 1% in the second. She said, however, it will pick up to 2% in the third quarter and 2.7% in the fourth.

"There will be a weakening in every sector — weak consumer spending, no contribution from the business end . . . modest inventory building, if any," Ms. Johnson said. "We'll go from a slump to a muddle in the second half of the year.

"Recession means two down quarters and we'll have that in 1987. But in 1988, after the downturn, the economy will muddle along at somewhere below 3% growth."

John Paulus, managing director and chief economist for Morgan Stanley & Co. Inc., New York, looks for GNP growth of 0.8% in the first half and 2.9% in the second half. "We're in the pessimistic camp . . . because we see trade producing less of a stimulus in 1987," he said.

David Levine, chief economist at Sanford C. Bernstein & Co., New York, on the other hand, expects a boom in the first half of 1987, with GNP growth at a 7.5% annual rate, slipping to 5.3% in the second half.

The boom began in November, Mr. Levine said, and the first two quarters of 1987 will benefit from a fourth quarter 1986 in which demand increased, but inventories dwindled.

Others generally based their

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What the experts predict for 1987

Economists	GNP[1] 1st half rate	GNP[1] 2nd half rate	T-bills 90-day by June	30-year Treas. by June	Inflation by June	Chances of '87 recession	Fiscal '87 federal deficit ($ billions)	1987 trade deficit[2] ($ billions)
Jason Benderly/ Robert Giordano Goldman, Sachs	2.34%	2.5/3%	4.75%	6.75%	3-4%	30%	195	126
Chuck Clough Cowen & Co.	2.5	1.5	4.5	6.5-6.75	4	30	na	na
Robert Dederick Northern Trust	2.5	3.5	4.75	7.25	3.5	25-33	180-190	120
Edward Yardeni/ Deborah Johnson Prudential-Bache	−2/−1	2/2.7	4	6	2	100	200	na
David Levine Sanford C. Bernstein	7.5	5.3	7.25	9.5	4.8	1	150	150-170
Mickey Levy Fidelity Bank	2	3	5	7	4	10	190	120
John Paulus Morgan Stanley	0.8	2.9	4.5-4.75	6.5	3	25	180	150
Georges Rocourt Mercantile Safe Deposit	1.5	2.5	4.75	6.8	3.75	33	185	105
Ken Safian Safian Investment Research	0	−2	5.35	7	3.5	50	180-200	145
Frank Schott Equitable Life	2.1	2.8	5	6.9	3.5	25	200	120
Albert Sommers Conference Board	1.7	3.1	5.2	na	3.1	0	185	120
Donald Straszheim Merrill Lynch	1.2/1.8	2.5/3.5	4.5	6.8	3.1	25	193	134

[1] Double entries reflect quarterly breakout
[2] Assumes $150 billion 1986 deficit

Economists . . .

Continued from page 3

more moderate predictions on weak capital spending, modest consumer spending and a falloff in residential investment.

Chuck Clough, director of investment policy for Cowen & Co., New York, said capital spending is flat now and will fall in the short term, meaning there will be no demand to push up durables.

The three durables — cars, houses and business capital — are weak enough to "keep the economy in its current funk," he said.

Donald H. Straszheim, president and chief economist at Merrill Lynch Economics Inc., New York, said, "Consumer spending will be slow in the aftermath of tax bill and auto incentives of late 1986. Nonresidential investment spending will be weak because there is a lot of excess capacity that will take years to work off . . . We see inventory accumulation as being modest, though a bit stronger in 1987 than in 1986. Housing will be weaker in the first part of 1987 than late 1986, gradually improving in the second half, but not at the boom levels of 1986."

Frank Schott, chief economist at the Equitable Life Assurance Society of the United States, New York, believes the consumer is the wild card in a year in which he predicts modest economic growth and a 25% chance of a recession if the consumer "goes into the tank." He noted consumer confidence has been eroding.

Georges Rocourt, chief economist at Mercantile Safe Deposit and Trust Co., Baltimore, sees only modest growth in the GNP, but said that might be a plus, because slow growth could accomplish much of what a recession accomplishes and, hence, make a recession unnecessary.

All but Mr. Levine believe there is some chance of a recession next year, with most putting it in the 25% to 33% range. But Mickey Levy, senior vice president and chief economist at the Fidelity Bank in Philadelphia, put the chance of a recession at less than 10%, and Bernstein's Mr. Levine, 1%.

"A lot of people think we're headed for negative growth; they're wrong," Mr. Levine said.

Mr. Clough of Cowen & Co. believes a recession is on the horizon — in late 1987 at the earliest — because business spending is "not going anywhere." The government is in a period of "fiscal retrenchment," and personal spending will rise at a slower pace than in 1986.

Mr. Paulus said there's a 25% chance of a recession occurring in 1987. "The reason for not expecting a recession is that the one thing that has been responsible for producing post-World War II recessions is inflation reaching unacceptably high levels . . . and that's not going to happen," he said.

Interest rates and inflation

The economists expected 90-day Treasury bill rates to fall to about 4.75% by midyear from about 5.5% when they were interviewed, and long-term rates to drop to about 7% from about 7.7%.

Again Mr. Levine was the contrarian, projecting short-term rates of 7.25% by midyear and long-term rates of 9.5%.

None of the economists is expecting a major outbreak of inflation, although Mr. Levine puts it at 4.8% by midyear. Most of the others put it in the 3.5% to 4% range, with Pru-Bache's Ms. Johnson projecting only a 2% rate.

Goldman, Sachs is using an inflation rate of 3% to 4% for 1987. "We are just about to start seeing that," said Jason Benderly, vice president and co-director of economics research at Goldman, Sachs & Co., New York. "The (Consumer Price Index) is about to start running in that range."

Robert Giordono, partner and co-director of economic research at Goldman, expects to see Treasury bills at 4.75% by June.

"We think interest rates will fall because of a declining budget deficit, the financial dynamics of slow economic growth and a significant reduction in the corporate sector's borrowing requirements," he said. "Federal Reserve policy will become more accommodative mainly because it hasn't been very stimulative despite rapid money supply growth."

Deficit dimensions

The economists see tax reform as helping to ease the federal deficit, with the median deficit prediction being $190 billion. Mr. Levine again was a loner, expecting a $70 billion slash in the budget deficit, to $150 billion. None of those surveyed expects a deficit of more than $200 billion.

Merrill Lynch expects the improvement in the budget deficit to be "very slow and labored," Mr. Straszheim said, falling to $193 billion in fiscal 1987 from $220.7 billion in fiscal 1986, far off the mark of the Gramm-Rudman-Hollings target of $144 billion.

Mr. Paulus based his more optimistic prediction of $180 billion on tax reform, deep cuts in defense spending and reduced grants to local governments.

Mr. Clough also is among those seeing some hope for the budget deficit. "People will be surprised at how much it will go down," he said, without offering just how much it might be reduced.

Albert Sommers, senior fellow and former chief economist of The Conference Board, a leading nonprofit business research group in New York, looks for a $35 billion reduction in the federal budget deficit in fiscal 1987 from fiscal 1986, and a $30 billion cut in the trade deficit for the year.

"They work in opposite directions so that if the declines in the budget and trade deficits are comparable, the net effect is not significant. They offset each other," he said.

Several of the economists were buoyed by the trade deficit's prospects, expecting a median of $120 billion, an improvement of about $30 billion.

The outsiders here were Mr. Levine, predicting a trade deficit of $150 billion to $170 billion, and Mr. Rocourt, predicting $105 billion.

Mr. Straszheim said the gradual improvement on the trade side is the most important indicator.

"The worst is over for trade. There will be a gradual, but steady and distinct, improvement in the trade account over the course of 1987 and into 1988," he said.

"Net exports have been hurting the economy during the entire decade of the '80s. That's over. They will begin helping now."

The trade deficit also was a bright spot for Goldman, Sachs, which expects it to drop $24 billion.

"What's causing the modest rebound is not tax reform but the improved trade deficit and the growth of disposable income," Mr. Benderly said.

Pru-Bache's Ms. Johnson agrees the picture is a bit rosier for the trade deficit, which she says will narrow some because of an increase in consumer spending.

Mr. Paulus, however, doesn't see the nominal trade deficit narrowing in 1987 even though in real terms it will narrow slightly.

And Mr. Clough was not very hopeful about reducing the figure: "Even if the dollar went to zero yen, we wouldn't make VCRs here." ■

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THE STRONG MONEY MANAGERS

14.1% of managers use passive bond approach

About 14.1%, or 78, of 552 investment managers surveyed by *Pensions & Investment Age* list passive fixed-income approaches as part of their investment strategies.

Passive approaches to fixed-income management include bond index funds, cash-matched dedicated portfolios and immunized portfolios.

Bond index funds attempt to match the return of an appropriate index by structuring the portfolio to resemble the index. No attempt is made to outperform the index.

A cash-matched dedicated portfolio is structured so the cash flows from maturing bonds and coupon payments closely match a stream of liabilities. This approach avoids interest-rate risk.

An immunized portfolio also is structured to avoid interest-rate risk; this is achieved by constantly adjusting the duration of the portfolio to the duration of the liabilities. The duration is the time it takes to recapture half of the present value of the cash flows of the portfolio.

Fifteen of these managers have more than $1 billion under management.

What follows is a list of those managers. Information was compiled from questionnaires submitted by the managers for *P&I Age*'s May 19 special issue on the nation's leading investment advisers.

Managers using passive approach to fixed-income*

Addison Capital Mgmt.	10
American Natl. Bank, Chicago	8,160
Astrop Advisory	150
BA Investment Mgmt.	4,342
William Blair & Co.	615
Chase Investors Mgmt.	15,000
Churchill Mgmt.	75
Connors Investor Services	51
Continental Ill. Natl. Bank	1,807
Dana Investment Advisors	125
John Stewart Darrell & Co.	12
Davenport Asset Mgmt.	32
Delafield Asset Mgmt.	421
Dixon & Hubard	20
FMI Capital Mgmt.	32
Ferris Investment Advisory	65
First City Natl. Bank, Houston	606
First Commercial Bank	820
First Interstate Bank, Oregon	823
First Natl. Bank, Omaha	300
First Wisconsin Trust	1,645
Fraser Mgmt. Associates	20
Frontier Capital Mgmt.	716
Furgueson Capital Mgmt.	11
Gradison & Co.	60
R.W. Graybill	26
JCB Asset Mgmt.	72
Kangyo Kakumaru Capital Mgmt.	0
Kanne, Paris & Hoban	54
Kempner Capital Mgmt.	185
Kirkpatrick, Pettis, Smith, Polian	136
W.R. Lazard & Co.	20
Lehman Mgmt.	9,459
Marine Trust Co.	700
Marsh & Cunningham	36
McBryan, Malone & Russell	72
Mellon Capital Mgmt.	8,925
Merchants Natl. Bank	60
Merchants Natl. Bank, Muncie	126
Meridian Capital Mgmt.	20
National Bank of Washington	837
National Invest. Serv. of America	4,060
Nelson, Benson & Zellmer	214
North American Capital Mgmt.	2
Northern Trust	7,571
Pacific Asset Mgmt.	101
Parker Dillon Carlson & Johnson	14
Pittsburgh Natl. Bank	2,927
Portfolio Capital Mgmt.	76
Potomac Asset Mgmt.	235
Puget Sound Natl. Bank	12
RAC Advisors	5
Renaissance Investment Mgmt.	420
Schupf, Woltman & Co.	150
Seattle Trust	108
Security Natl. of Sioux City	60
Gregory Smith & Sons	300
Smith Breeden Associates	0
Southeastern Asset Mgmt.	464
F.A. Spina & Co.	7
State Street Bank	12,252
Stephens Capital Mgmt.	144
Sun Bank	600
Systematic Financial Mgmt.	33
Technological Investors Mgmt.	20
Tel Advisors	1
Townsend Asset Mgmt.	4
Trust Co. of the West	8,903
Union National Trust	60
United Trust Fund	0
Vanguard Group	3,892
Venture Capital Fund of New England	27
Wagner & Hamil	1
Ward & Wissner Capital Mgmt.	342
David E. Ware & Associates	7
Waycross Investment Mgmt.	15
Wells Fargo Investment Advisors	29,520
Wilshire Associates	2,050

**Figures refer to total tax-exempt assets under management, $ millions.*

Atlanta 1st pick as business site

Atlanta is considered the best place to locate a business, but New York is where the most new office space will be acquired in the next year, according to a survey of chief executive officers and corporate real estate officers.

The survey, made by Louis Harris and Associates on behalf of the Cushman & Wakefield real estate company, both in New York, posed questions about the nation's 12 largest commercial real estate markets. Surveyed were 400 chief executive officers and 201 senior corporate real estate officers at companies nationwide with revenue of at least $100 million.

Louis Harris, chairman of the research firm, said the survey, "The Cushman & Wakefield Business America Real Estate Monitor," was created "to tap the thinking of business executives." Rating criteria included quality of life for employees, cost and availability of labor, local and state government climate and proximity to markets and raw materials.

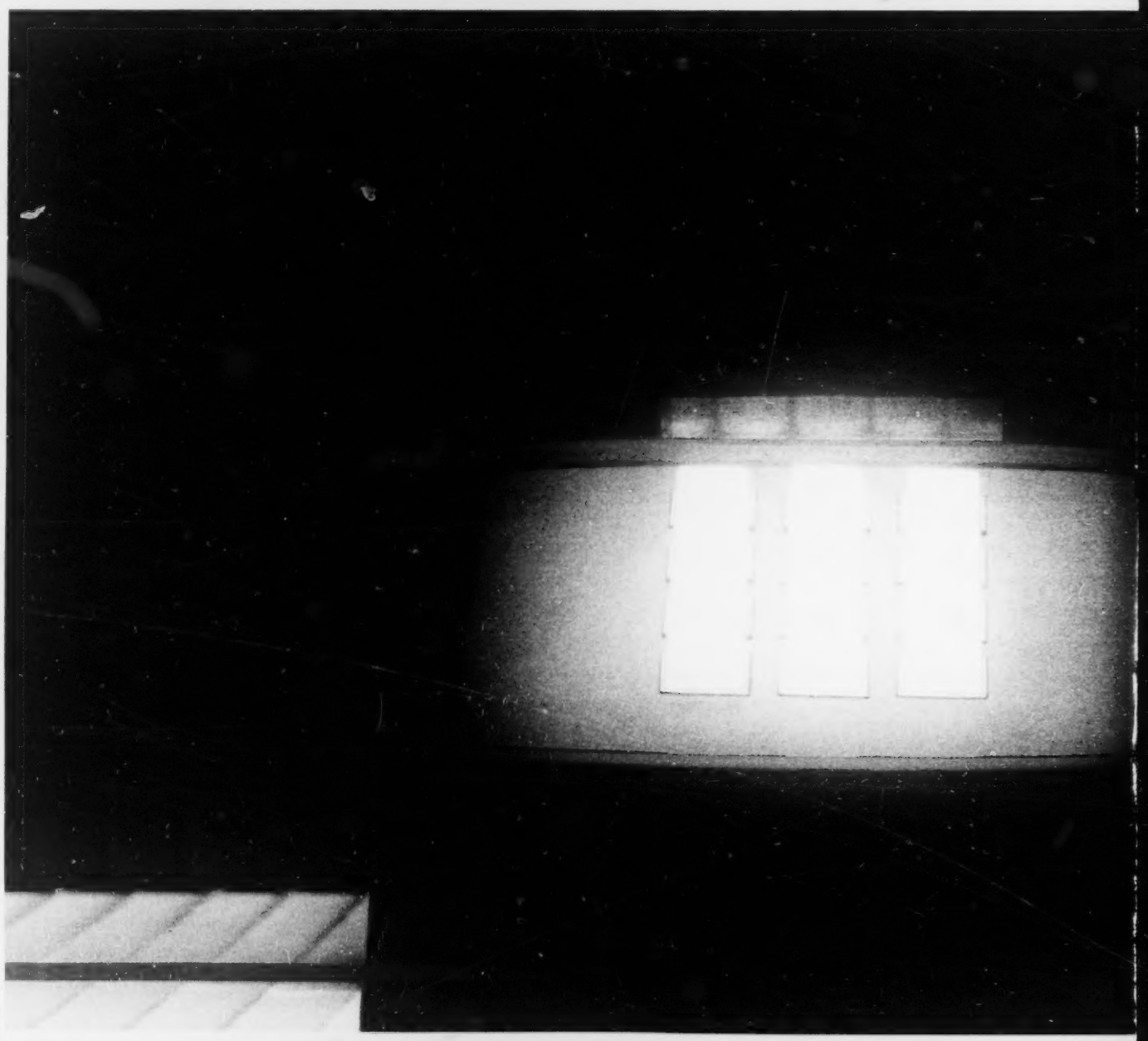
In rating the best places to locate a business today, the chief executive officers chose markets in the following order: Atlanta; Boston; San Francisco; Los Angeles; Seattle; Washington, D.C.; New York; Dallas; St. Louis; Miami; and Houston.

The real estate executives differed only slightly in their preferences, listing, in order: Atlanta; Boston; Los Angeles/Chicago (tied); San Francisco; New York; Seattle; Dallas; Washington; St. Louis; Houston; and Miami.

Other major findings include:

- The Los Angeles area is the most preferred place for real estate executives who plan to acquire new manufacturing, warehouse and distribution facilities in the next year.
- Chicago ranked first for proximity to markets and proximity to raw materials, but overall was ranked in the middle among all the market areas.
- Dallas and Houston ranked low for their current conditions, but respondents believe economies there have bottomed out and will improve within 12 months.
- Boston was ranked second to Atlanta as the preferred location as it scored high in quality of life, and proximity to markets, customers and clients.
- New York City scored well because of its proximity to markets, but was ranked low for its quality of life and the business climate provided by government.
- Atlanta, in addition to being rated the best location today, is also considered the area where business conditions will improve the most in the next 12 months. ■

BellSouth



Fed addresses ACH fraud

DALLAS — The Federal Reserve System is serious in its plans to address concerns of possible fraud in the Automated Clearing House network.

Increasing concern by users of the ACH about possible credit and fraud risks associated with using the system has prompted the Fed to take a closer look at the problem, said Florence Young, adviser to the Division of Bank Operations at the Board of Governors of the Federal Reserve System.

Some large companies or those with high-dollar transactions have questioned the security and control features of the ACH system in protecting corporate users from fraud by preventing unauthorized entry to the system and possible alteration of figures or transactions.

The Fed has issued for public comment several proposals that would limit risk in the ACH system.

Among the measures proposed by the Fed are for receiving banks to encourage automated deposits and delivery of ACH transactions. "This in itself prevents much of the potential for fraud," Ms. Young said, addressing a Dallas cash management seminar.

Another step under consideration is the encoding of all data communications links between depository institutions and the Fed.

She said the Fed also is "checking the feasibility" of some sort of authentication process to be applied to all data transmissions between the various links in the ACH system.

The Fed proposes to limit the risk in the ACH system through modification of the current after-the-fact monitoring system as well as expanding the real-time monitoring procedures and expanding the self-assessment procedures for depository institutions.

The comment period for the proposals will end in mid-March.

Ms. Young said final policies are expected to be approved by the end of 1987.

The authentication process is being tested by "a couple" of financial institutions in the Cleveland Federal Reserve District, said Ms. Young. ■

The Payden & Rygel index of short maturity assets, which usually appears in the cash management section, has been moved for this issue. It will be in its usual spot in subsequent issues.

Payden & Rygel index of short maturity assets*

(for month ended Nov. 30)

	November 1986	Quarter ended 9/30/86	Year to date	12 months ended 11/30/86	Yield level monthly change[a]
	Unannualized total returns				
90-day					
U.S. Treasury bill	0.4070	1.5980	6.1983	6.8940	19
Domestic CD	0.4410	1.6906	6.7020	7.4469	17
Euro $ CD	0.4581	1.7142	6.7973	7.5591	15
180-day					
U.S. Treasury bill	0.3920	1.7326	6.7977	7.5838	14
Domestic CD	0.3977	1.8104	7.0861	7.8636	16
Euro $ CD	0.4103	1.8432	7.1919	7.9868	15
1-year					
U.S. Treasury note	0.4445	2.0564	7.8995	8.8534	03
2-year					
U.S. Treasury note	0.6036	2.4026	9.9131	11.6235	05

*Figures are unannualized total returns. Year-to-date and 12-month figures linked monthly. 90- and 180-day Treasury bill yield level changes on discount basis.

[a]Basis points.

Source: Payden & Rygel, Los Angeles

Money movers

Continued from page 41

lected because they were both in the top 5% of consultant SEI Funds Evaluation Services' universe and because they were willing to negotiate fees.

The city pension system first hired the State of Wisconsin Investment Fund earlier this year, Mr. Bottoni said, because the state agency has very low fees that are netted directly from the system's money.

In a separate development, the system has received its preliminary reports from Becker Burke Associates, Chicago, on its South Africa divestiture study.

The consultant's final report was presented to the City Council in recent weeks, Mr. Bottoni said, and the recommendations will be made by the end of the year.

Sunkist Growers Inc.

SHERMAN OAKS, Calif. — The $125 million Sunkist Growers Inc. pension fund adopted dynamic hedging for about $115 million of its assets, said David Newsom, manager-financial analysis and investments.

The hedging, also called portfolio insurance, will be applied to all investments except real estate, which amounts to about $10 million, Mr. Newsom said.

Dynamic hedging seeks to assure a minimum rate of return, while allowing capture of most upside gains, through use of the futures markets.

Sunkist hired Morgan Stanley Asset Management, New York, to provide the hedging.

Collins Associates, Newport Beach, Calif., was consultant in the manager search.

Mr. Newsom said fund officials became interested in dynamic hedging as a means to protect the surplus, about $20 million, of the pension fund, and to allow for an increase in equity exposure to 75% from 65%.

A search is on for additional equity managers.

The fund chose Morgan Stanley for its team approach to hedging, using both futures and options investment professionals and actuaries, Mr. Newsom added.

West Hartford Town

WEST HARTFORD, Conn. — The West Hartford Town Pension Fund has hired Delaware Investment Advisers, Philadelphia, to manage its $50 million equity portfolio.

Previously, Fiduciary Trust Co. of New York was the fund's balanced manager and managed all of its almost $90 million portfolio.

Fiduciary will continue to manage the fixed-income portfolio for the fund, according to Peter Krzyzek, administrator.

Mr. Krzyzek said the pension board believed the fund "could have better equity performance if we got an equity manager.

"We're just breaking off the equity portion."

Delaware bases its equity approach on low price-earnings, sector rotation and income.

Mr. Krzyzek said value-oriented Delaware's "strong performance history" was a factor in the decision to hire the firm.

He said the $50 million Delaware will manage represents the entire equity portion of the fund's portfolio under Fiduciary's management. No additional funds were added.

The asset mix isn't expected to change. The equity portion of the fund's portfolio is about 60%.

The rest is in bonds and cash equivalents.

CBS Inc.

NEW YORK — The $600 million CBS Inc. pension fund has hired Bankers Trust — Investment Management Group, New York, to run an immunized bond portfolio of undisclosed size, said Richard Meckler, director of pension investments.

The assets came from a "buy-and-hold" account.

In addition, CBS has begun in-house management of a short-term portfolio, he said.

The listing of new issues of corporate securities, which usually appears in the corporate finance section of *Pensions & Investment Age*, has been moved for this issue. It will return to its usual spot in subsequent issues.

New issues of corporate securities

Nov. 24 — Dec. 5, 1986

Issue date	Company	Amount ($ mil.)	Type of security	Offering price Debt (%) Share ($)	Gross spread as % offer price	Where traded (to list)	Managers
Debt							
12/5	Bond Brewing Holdings	510.00	Sub. Ex. Deb.	98.93%	4.000	OTC	Drexel Burnham Lambert
11/25	CMO Trust 15	500.00	FHLMC CMO	99.75%	.627	OTC	Salomon
12/5	FBC Mortgage Securities Trust VIII	312.50	FNMA CMO	99.63%	.502	OTC	First Boston
12/5	Great Western Savings	300.00	Flt. Notes	100.00%	.500	LUX	Salomon/First Boston
12/4	New Zealand	300.00	Notes	100.00%	.900	OTC	FBC/GS/KP/MLCM/MS/SAL*
12/4	FBC Mortgage Securities Trust VII	300.00	Col. Bonds	99.97%	.500	OTC	First Boston
11/25	Province of Quebec	300.00	Debs.	99.60%	.879	OTC	First Boston/Merrill Lynch/Kidder Peabody/Dominion Securities
11/25	The Chase Manhattan Corp.	250.00	Notes	Market	Market	OTC	Merrill Lynch
11/25	American Express Credit Corp.	250.00	Sr. Notes	99.40%	.654	OTC	Shearson Lehman/First Boston/Goldman, Sachs/Merrill Lynch/Salomon
12/3	FBC Mortgage Securities Trust VII	240.00	Col. Bonds	99.94%	.500	OTC	First Boston
Common Stock							
11/26	Aristech Chemical Corp.	319.50		$17.75	5.75	IPO (NY)	Shearson Lehman/Goldman, Sachs
12/4	Centerior Energy Corp.	92.50		$23.13	2.72	NY/MW/PC	Morgan Stanley/McDonald/Merrill Lynch/Pru-Bache/Shearson Lehman
11/24	Sun Microsystems	80.40		$19.38	4.28	OTC	Alex. Brown/Robertson, Colman & Stephens
12/4	Peoples Heritage Savings Bank	77.80		$15.50	5.94	IPO	PaineWebber/Alex. Brown/E.F. Hutton
11/26	Empire of America Federal Savings	52.00		$5.63	6.93	IPO (AM)	Kidder Peabody
12/4	Boston Celtics Limited Partnership	48.10		$18.50	6.97	IPO (NY)	Smith Barney, Harris Upham
11/26	Wilmington Savings Fund Society	33.30		$10.38	6.94	IPO	Shearson Lehman/Alex. Brown
11/26	Caroloo Pictures	32.40		$9.00	6.67	IPO (NY)	PaineWebber/Drexel Burnham Lambert/Bear, Stearns/Furman Selz
11/25	Dixie Yarns	32.40		$18.00	6.50	IPO	Lazard Freres
12/2	Service Corp. International	27.60		$33.75	2.96	NY	Shearson Lehman

Source: Securities Data Co., New York

FHLMC CMO: FHLMC-backed collateralized mortgage obligation
FNMA CMO: FNMA-backed collateralized mortgage obligation
Col. Bonds: Collateral bonds
Sub. Ex. Deb.: Subordinated extendible debentures
Flt. Notes: Floating-rate notes
**First Boston/Goldman, Sachs/Kidder Peabody/Merrill Lynch/Morgan Stanley/Salomon*

PC: Pacific Stock Exchange
NY: New York Stock Exchange
OTC: Over the Counter
IPO: Initial Public Offering
AM: American Stock Exchange
MW: Midwest Stock Exchange
LUX: Luxembourg Stock Exchange

Market timing used

About 14.1%, or 94, of 663 investment managers surveyed by *Pensions & Investment Age* list market timing as part of their investment approach.

Equity managers using this approach decide when to buy stocks in the light of economic factors such as the strength of the economy and the direction of interest rates, or technical indications such as the directions of stock prices and the volume of trading.

Twelve of these managers have more than $1 billion under management.

What follows is a list of managers using market timing.

Information was compiled from questionnaires submitted by the managers for *P&I Age*'s May 19 special issue on the nation's leading investment advisers.

Managers using market timing approach*

AFC Advisory Services	6
Agepasa	0
Allocation Advisors	11
Argus Investment Mgmt.	64
Ariston Capital Mgmt.	16
Avatar Associates	472
BBL Capital Mgmt.	436
Bank of Tokyo Trust	56
Bernstein-Macaulay	2,140
Boatmen's First Natl. of Kansas City	920
Bostian Research Associates	8
G. Waring Boys Co.	50
C.H. Brown	45
Buffalo Capital	7
Capital Supervisors	4,828
Chase Investors Mgmt.	15,000
Churchill Mgmt.	75
Commerce Bank of Kansas City	289
Commerce Bank of St. Louis	260
Commodity Mgmt. Service	0
Computime Institutional Services	3
Dana Investment Advisors	125
Davis, Weaver & Mendel	25
Delafield, Harvey, Tabell	88
Farmer & Lang	71
Fiduciary & Corporate Counsel	7
Fields Investment Group	40
First Asset Mgmt.	1,581
First City Bank of Dallas	50
First Commercial Bank	820
First Interstate Investment Advisers	191
First Natl. of Cincinnati	383
Ganz Associates	20
Gardner and Preston Moss	2,885
Kenneth J. Gerbino & Co.	9
Greenwich Monitrend	60
Hahn Holland & Grossman	226
Heartland Capital Mgmt.	128
Hibernia National Bank	2,593
T.J. Holt & Co.	17
Hutchinson Natl. Bank & Trust	55
Institutional Capital	893
Institutional Portfolio Services	50
Investment and Capital Mgmt.	941
Investors Mgmt. Services	79
Investors Research	101
Tom Johnson Investment Mgmt.	512
KAS Investment Consultants	6
William J. Kautz Associates	40
Kreger Capital Mgmt.	3
R.M. Leary & Co.	17
Leonard Mgmt.	2
Lesesne & Co.	45
Liberty Natl. Bank & Trust	894
Maritime Asset Mgmt.	58
MassCo Investment Mgmt.	161
McGlinn Capital Mgmt.	1,142
Paul A. Merriman & Associates	11
Morgan Grenfell Investment	2,075
New Japan Capital Mgmt.	0
Newhard, Cook Advisory Services	7
Nicholson Group	0
North American Capital Mgmt.	2
PCM International	422
PM Portfolio Mgmt.	79
PSM Investors	20
Perkins Capital Mgmt.	15
Pittsburgh National Bank	2,927
Portfolio Timing	6
Reimer & Koger	766
Renaissance Investment Mgmt.	420
Ronald Sadoff Associates	35
Santaularia & Associates	7
Seattle Trust	108
Security Funding	15
Simpson Capital Mgmt.	7
Sirach/Flinn, Elvins Capital Mgmt.	414
Stein Roe & Farnham	4,600
Sterling Capital Mgmt.	587
Stratton Capital Mgmt.	1
Stuyvesant Capital Mgmt.	102
TSA Capital Mgmt.	605
Tel Advisors	1
Trendstat Capital Mgmt.	17
Trust Co. of the West	8,903
Tuttle & Noroian	180
United States Trust	305
Unity Mgmt.	390
Vanguard Group	3,892
Waddell & Reed Asset Mgmt.	859
Wakley & Roberton	66
Warburg Investment Mgmt.	280
Wardley Marine International	76
Wolf, Webb, Burk & Campbell	350

**Figures refer to total tax-exempt assets under management, $ millions.*

Pensions & Investment Age's annual survey and profiles of the nation's 1,000 largest employee benefit plans will be published in the Jan. 26 issue.

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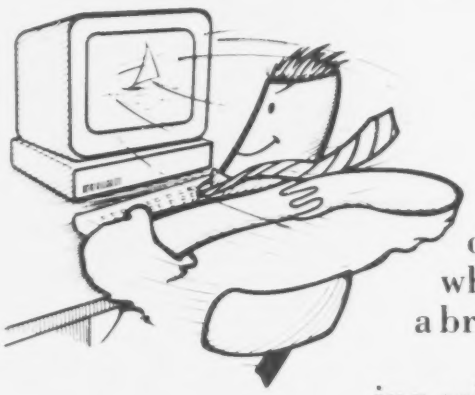

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